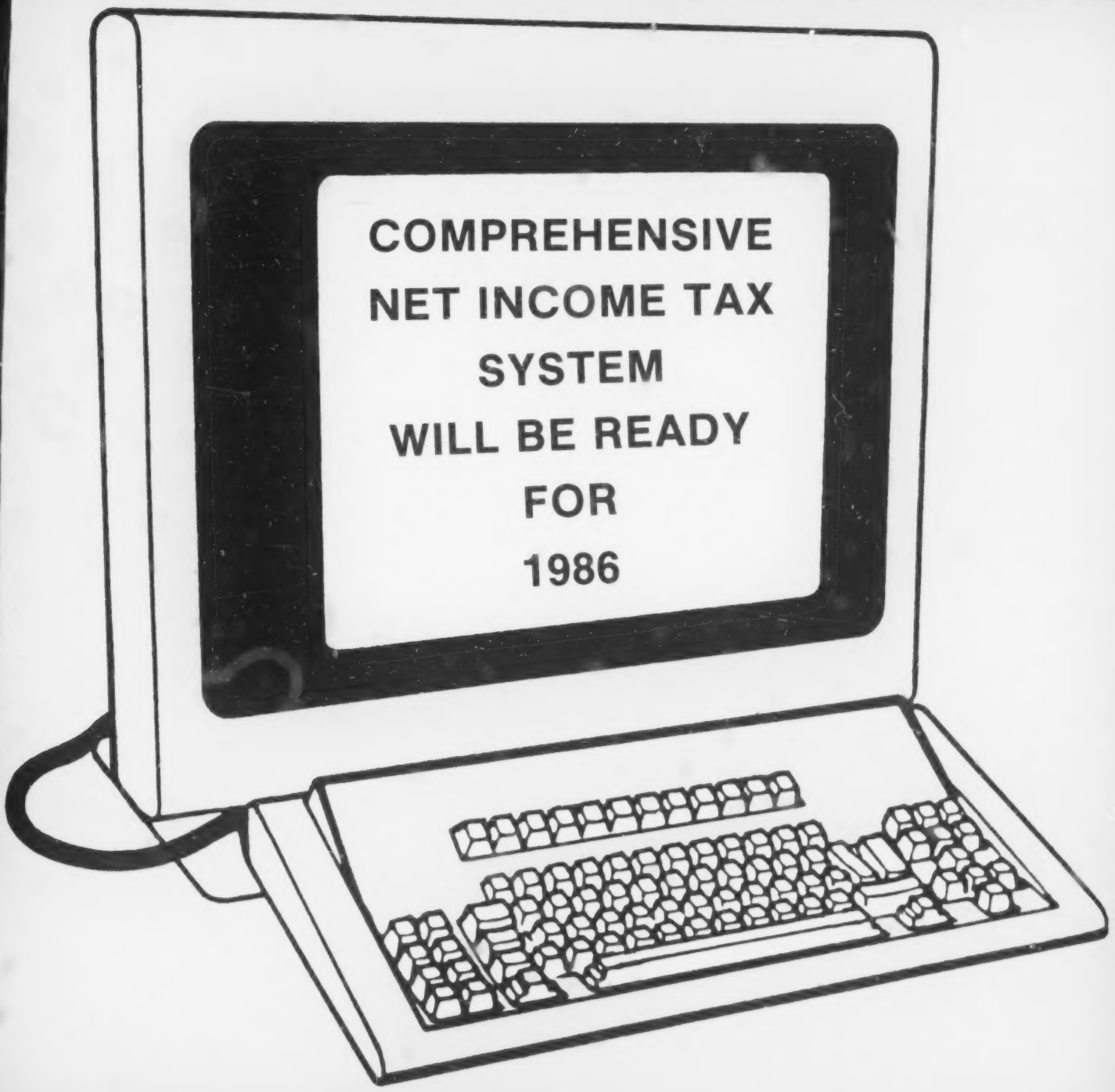
DEPARTMENT OF TAXATION

ANNUAL REPORT 1984-1985



The Honorable George R. Ariyoshi
Governor
State of Hawaii

Herbert M. Dias
Director of Taxation
State of Hawaii

October 1, 1985

The Honorable George R. Ariyoshi
Governor, State of Hawaii
State Capitol
Honolulu, Hawaii 96813

Dear Governor Ariyoshi:

I am happy to present the enclosed Hawaii Tax Department's fiscal year ended June 30, 1985, annual report of accomplishments and statistics.

Total revenues collected by the department amounted to $1,444.3 million, which was 8.2% more than the previous year's collection. The total general fund tax collections for the fiscal year amounted to $1,292.9 million, representing an increase of 9.7% over the prior year.

At the close of the fiscal year, the department was in the final phase of completing one of our major goals, namely, the automation of our Comprehensive Net Income Tax System. This system has been implemented during September, 1985. Our consultant, Electronic Data Systems, Inc., assisted us in completing the system design and programming. We are presently completing our conversion of our data and training of all departmental personnel statewide in preparation of the 1986 tax season. We are confident that the Comprehensive Net Income Tax System will be successful, especially with the assistance and resources from the State Budget & Finance Department's data center.

I would like to take this opportunity to acknowledge and commend all the Tax Department employees for their cooperation and good work; special recognition goes to the user and technical Comprehensive Net Income Tax System committees.

Very truly yours,

Herbert M. Dias

HERBERT M. DIAS
Director of Taxation

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THE YEAR IN REVIEW

ADMINISTRATION

Fiscal year 1984-85 was filled with accomplishments which will be the foundation of our new Comprehensive Net Income Tax System (CNIT). During the past three fiscal years 1982-85, the State Tax Department personnel have been planning and developing the CNIT system. There have been many past accomplishments in the preparation for the implementation of the CNIT during September, 1985. Some of the accomplishments are as follows: The State Tax Department has significantly changed our front-end processing of tax returns for faster recording and depositing of collections, changed our office auditing techniques, improved our assistance to community groups and individuals through our state-federal Volunteer Income Tax Assistance (VITA) program, as well as answering expeditiously the taxpayers telephone and over-the-counter tax questions, significantly improved taxpayer refund turn-around time from date of receipt of taxpayer net income tax return to issuance of tax refund checks.

The past year reflected a testing of new techniques as a prelude to the 1986 tax season; namely, creating a second shift of cashiers, being more selective in office auditing tax returns, and realignment of manpower resources to handle taxpayer assistance and nonfilers programs.

The State Tax Department completed the preliminary testing of the CNIT system at Sacramento's EDS (Electronic Data System, Inc.) data center during May, 1985 and the final acceptance of the CNIT at the State of Hawaii Budget & Finance Department, Electronic Data Processing Division's data center during July through August, 1985. Both events were successfully accomplished.

TAX SERVICES AND PROCESSING DIVISION

The objectives of the Tax Services and Processing Division are to process all tax documents received as efficiently as possible, to maintain accurate accounting records for all tax programs, and to assist the public on all tax matters through correspondence, telephone and/or personal contact.

Expanded microfilming of the net income tax returns and improved on-line inquiry capability enhanced departmental efficiency and taxpayer assistance. During this past tax season, employees had faster access to information on taxpayers' filing status.

The Document Processing Branch again implemented two working shifts during the peak tax season. This additional shift enabled the branch to accelerate the issuance of refunds and the deposit of monies. Thus, 251,853 Oahu taxpayers, or 86% of the Oahu taxpayers requesting refunds, received their checks within five weeks of the postmarked date of their return. This compares with 79% last year. Nearly 95% of the checks for taxpayer payments were deposited within three days after receipt.

In response to taxpayer requests for tracers on tax refunds claimed, the Revenue Accounting Branch mailed approximately 900 refund checks and generated about 50 form letters per month. These functions were previously performed by the Department of Accounting and General Services. The Revenue Accounting Branch also added a fourth line for name and address on refund checks which resulted in 300 fewer returned checks, a reduction of 27% from last year.

Ten auditors from the Office Audit Branch and two auditors from the Field Audit Branch staffed the Taxpayer Assistance Program this past tax season. Their duties included assisting taxpayers at the counter, providing information on the telephone, and preparing tax returns for taxpayers.

Introduction of a number system at the income tax preparation station enabled the

staff to better serve the taxpayers. Taxpayers were instructed to take a number and they were assisted at the time their number was called.

The Taxpayer Services Branch provided the necessary equipment and support to the Taxpayer Assistance Program. Support included issuing forms to taxpayers and providing telephone assistance.

Other auxiliary programs included the Volunteer Income Tax Assistance Program (VITA) and the community education program. The VITA service was expanded to include all branches of the Armed Forces. The education program responded to requests from senior citizen centers. These community activities helped to reduce taxpayer traffic into the department.

The various taxpayer information assistance programs alleviated the workload on the department's staff. Excluding requests for forms, a total of 68,421 telephone and counter assistance requests were handled, or 13,552 fewer than a year earlier. In addition, tax office personnel prepared 6,844 net income tax returns for taxpayers, nearly the same as last year.

COMPLIANCE DIVISION

The primary objective of the Compliance Division is to maximize voluntary public compliance with Hawaii's tax laws. The two major programs of the division are: (1) an audit program to ensure accurate tax reporting, and (2) an enforcement program to identify and collect delinquent accounts.

During the 1984-85 fiscal year, some division employees were actively involved in the design and development of the CNIT system. A User Committee made up of auditors, examiners and delinquent tax collectors worked throughout the year with the consultants in designing the system and developing the department's procedural manual.

Continued efforts to revise procedures in the Audit Branch made for more efficient operation during the tax season. In the past, all the office examiners were needed to process the net income tax returns during the peak period with overtime requirements. This fiscal year 11 office examiners were loaned to the Taxpayer Assistance Program during the tax season and minimal overtime was required by the remaining staff to process most of the returns.

The nonfilers unit in the Enforcement Branch concentrated on licensed nonfilers of general excise/withholding returns which resulted in the development and implementation of a procedure which identifies and contacts possible nonfilers.

STAFF OFFICES

Administrative Services Office

The Administrative Services Office coordinated the preparation of budget requests for the fiscal year biennium 1985-1986 and 1986-1987 as well as the department's expenditure plans and allotments. On December 31, 1984, this office closed out the financial reporting of the three-year study completed by the Tax Review Commission.

All budget restrictions imposed by the Department of Budget and Finance were met and turnover savings mandated by the 1984 Legislature were achieved during the fiscal year.

The staffing patterns, reflecting the distribution of authorized positions by programs for the past three years, are outlined below. The 326 authorized positions for the 1985 fiscal year were geographically distributed as follows: Oahu — 254; Maui/Molokai — 21; Hawaii — 36; and Kauai — 15.

STAFFING PATTERN

(Number of Authorized Permanent Positions)

By Organizations/Operating Programs	1985	1984	1983
Headquarters Administration	40	36	36
Tax Services and Processing Division[1]	89	89	89
Compliance Division[2]	197	197	198
TOTAL	326	322	323

[1] Tax Services and Processing Division includes three branches (see organization chart).
[2] Compliance Division includes two branches (see organization chart).

NOTE: Above does not include: (a) temporary clerical support positions utilized during the peak periods and special projects, and (b) temporary student positions during the summer.

Personnel transactions/movements within the department included 22 civil service new hires for permanent regular positions, 88 hires for temporary appointments, and 7 retirements. Other transactions included 48 promotions, transfers or reallocations; 17 resignations; and 84 terminations involving temporary positions.

Systems and Procedures Office

The Systems and Procedures Office (SPO) is responsible for the development, implementation and maintenance of departmental policies and procedures for automated information management.

On September 13, 1985, Electronic Data Systems (EDS), a high technology subsidiary of General Motors, completed the Comprehensive Net Income Tax (CNIT) system as scheduled. The CNIT project produced an updated detail application design document on September 15, 1984; a system internal specification document on December 15, 1984; and a technical and user manual, and an operation document on September 13, 1985. The project started on April 16, 1984, with five EDS system engineers in Honolulu. At the crucial period of the project, EDS assigned 21 system engineers between Sacramento, California and Honolulu.

This implementation of the CNIT computer system is a result of the efforts of employees of the Department of Taxation, Department of Budget and Finance, and the consultants from EDS. Through cooperative action, EDS succeeded in meeting all project deadlines.

Six new and existing committees were assigned to assist in the CNIT project: (1) Peer Review — made up of the department's division chiefs and branch supervisors; (2) User — departmental employees from Compliance and Taxpayer Services divisions, who put together the "User Manual"; (3) Technical — employees from System and Procedures Office and Electronic Data Processing Division of the Department of Budget and Finance to maintain the computer software for the department; (4) Forms — departmental employees who worked on the new net income tax forms; (5) Reorganization; and (6) Budget. One special committee was formed, DIPIRM, to do a study on office automation. At times, up to fifty employees were involved in the project.

The CNIT project proposed 38 video work stations, 8 printers, 5 personal computers and 12 data entry stations as the minimum requirement to operate the automated CNIT system. Each equipment combined with system software will assist employees to better serve the taxpayer, a major goal of computerization.

Income Technical Office

Due partly to the Tax Review Commission's report submitted to the Thirteenth Legislature

in December, 1984, many tax-related bills were introduced during the 1985 legislative session. The Income Technical Office prepared testimonies on 87 House bills, 168 Senate bills, one Senate and one House concurrent resolutions.

In response to requests, approximately 656 memorandums, rulings and letters were issued. There were 76 applications for exemption from the payment of general excise taxes from nonprofit organizations; 75 were approved and one disapproved.

Tax information releases numbered three compared to six last year. In addition, three Department of Taxation Announcements were issued.

This office was also involved in updating, revising, and drafting tax forms, schedules, and pertinent instructions for the 1985 tax year.

The Income Technical Office's goal of offering more courses of instruction to the department's employees resulted in the growth of training courses from 27 in the previous year to 39. Nearly 200 employees received in-house training from departmental instructors and guest speakers. The training staff provided instructions on 12 tax topics involving new tax laws, general excise tax issues, individual net income tax matters, etc. Guest speakers from the local CPA community joined the teaching staff and spoke on four tax-related subjects such as "S" corporation and partnership taxation. Finally, selected employees attended five annual tax seminars sponsored by the Hawaii Tax Institute and the local professional accounting societies.

Tax Research & Planning Office

Throughout fiscal 1984-85, the Tax Research and Planning Office continued to service the Council on Revenues. In September, 1984, the Council estimated that the general fund tax revenues would increase 11.2% to $1,310.4 thousand. Actual collections were $1,292.9 thousand, a 9.7% increase over the previous year. Tax revenue collections suffered somewhat from a series of labor disputes in the construction industry between July and December, 1984, as well as a one-month United Airlines strike between May and June of 1985.

Total Hawaii personal income was estimated to increase 7.0% in calendar 1984 by the Council. This was later revised to 6.5% in October, 1984. Preliminary data provided by the Bureau of Economic Analysis of the U.S. Department of Commerce indicates that the total state personal income was 6.9% higher in 1984.

In January, 1985, the ninth study on tax credits was published. Based on data obtained from 1983 tax returns filed in 1984, this report covers the excise, renters', $1 general income, child care expense, solar energy device, heat pump, water heater insulation, and child passenger restraint system tax credits. For the tax year, eligible Hawaii resident taxpayers claimed $22.0 million in tax credits. Excise tax credits accounted for nearly 62% of the total.

The department's annual "Hawaii Income Patterns — Individuals" covering 1983 individual tax returns filed in 1984 was published in May, 1985. This report contains detailed data on income, adjustments, exemptions, deductions and tax liability reported by Hawaii taxpayers. The report shows that the tax liability after credits for resident taxpayers advanced $40.4 million over the 1982 tax year. Bracket creep as well as the reduction of the general income tax credit from $25 to $1 per qualified exemption contributed to this increase.

During the year, this office assisted the Tax Review Commission. For the 1985 legislative session, the Tax Research and Planning Office reviewed over 250 tax measures to determine the revenue impact of each proposal.

MANAGEMENT PERSONNEL

OFFICE OF THE DIRECTOR

Director of Taxation	Herbert Dias
Deputy Director of Taxation	Wallace Aoki

DIRECTOR'S OFFICE STAFF

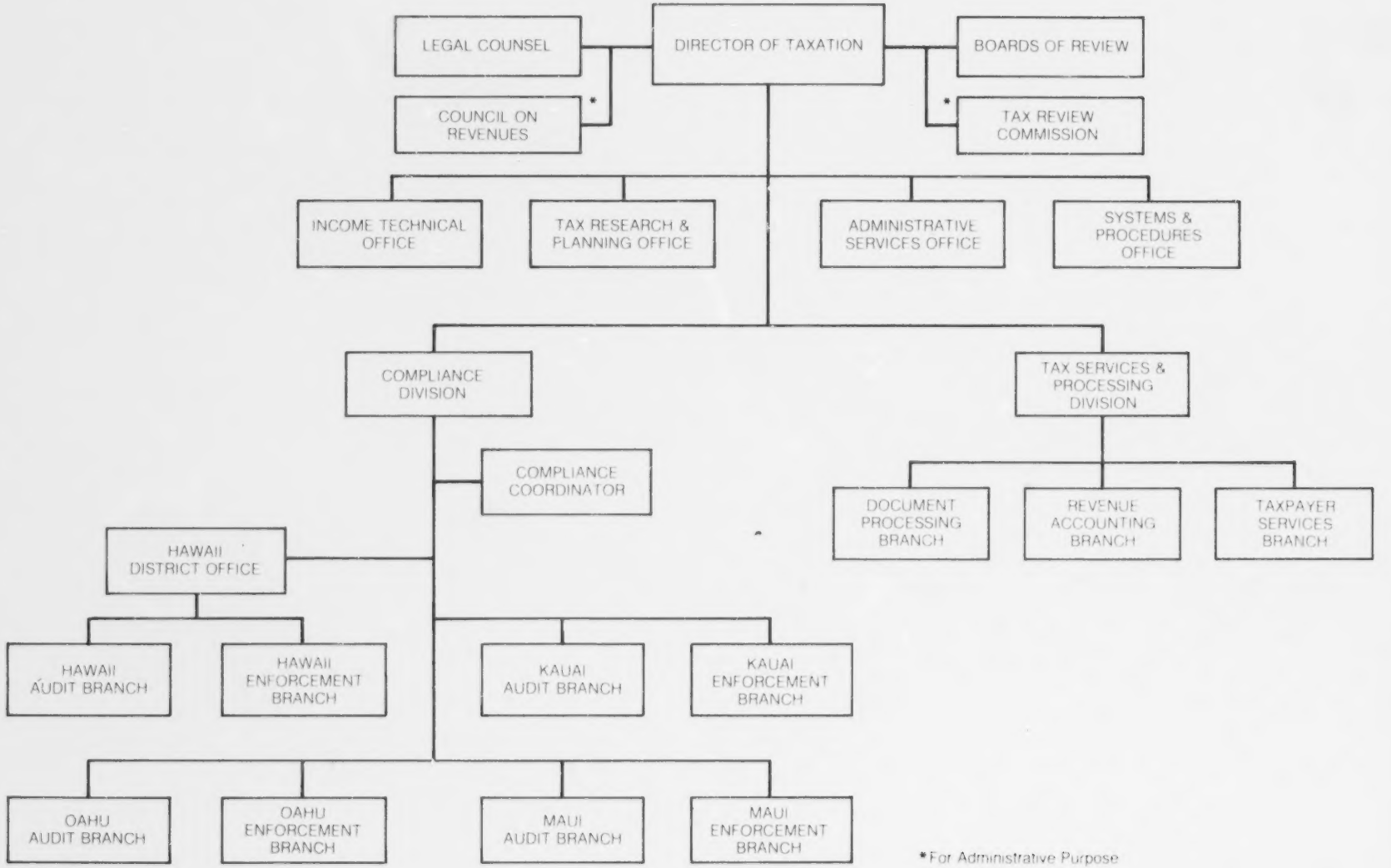
Income Technical Officer	David Miyahira
Tax Research and Planning Officer	Robert Koike
Systems and Procedures Officer	Edwin Matsui
Administrative Services Officer	Warren Higashi

OPERATIONS STAFF

Compliance Division Chief	Kenneth Murayama
1st Taxation District Office (Oahu)	
Audit Branch	Susumu Oi
Enforcement Branch	Wayne Kinoshita
2nd Taxation District Office (Maui)	
Audit Branch	James Horikawa
Enforcement Branch	Stanley Ching
3rd Taxation District Office (Hawaii)	
District Tax Administrator	Sanford Yanagi
Audit Branch	Ronald Yabe
Enforcement Branch	Wendell Serrao
4th Taxation District Office (Kauai)	
Audit Branch	Ernest Balderas
Enforcement Branch	Helen Teraoka
Tax Services & Processing Division Chief	Gilbert Chang
Taxpayer Services Branch	Lawrence Nakano
Document Processing Branch	Richard Yokota
Revenue Accounting Branch	Marie Okamura

ORGANIZATION CHART

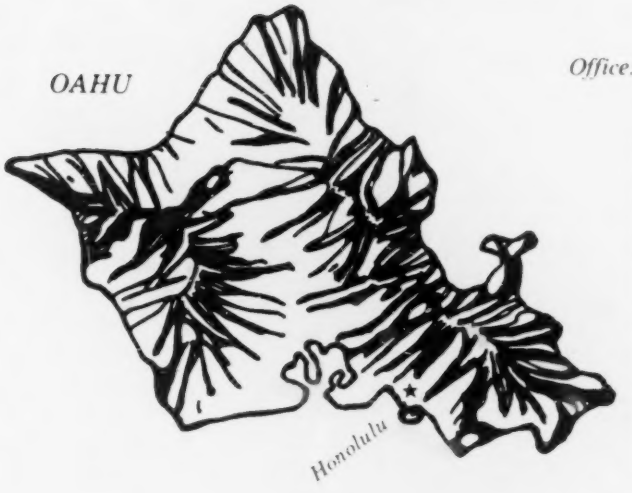
Department of Taxation
State of Hawaii



*For Administrative Purpose

FIRST TAXATION DISTRICT

Island of Oahu

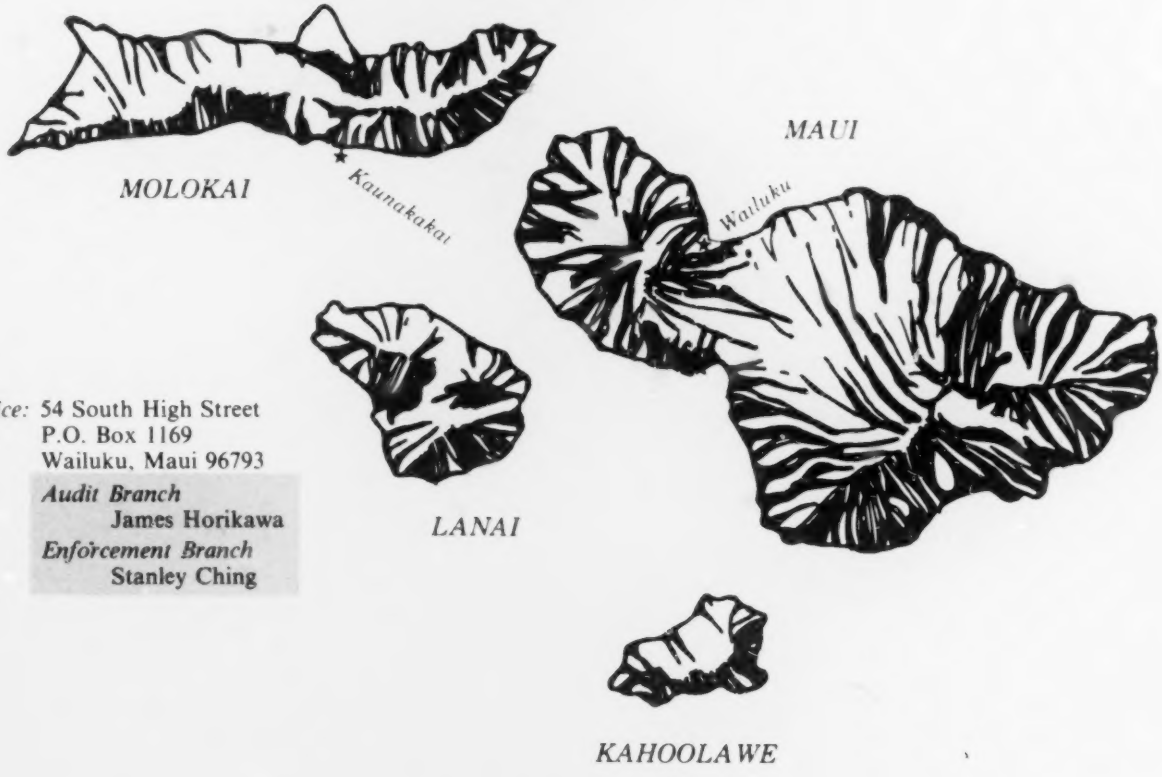


Office: 425 Queen Street
P.O. Box 259
Honolulu, Hawaii 96809

Compliance Division Chief
Kenneth Murayama
Audit Branch Chief
Susumu Oi
Enforcement Branch Chief
Wayne Kinoshita
Tax Services & Processing Division Chief
Gilbert Chang
Taxpayer Services Branch
Lawrence Nakano
Document Processing Branch
Richard Yokota
Revenue Accounting Branch
Marie Okamura

SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai

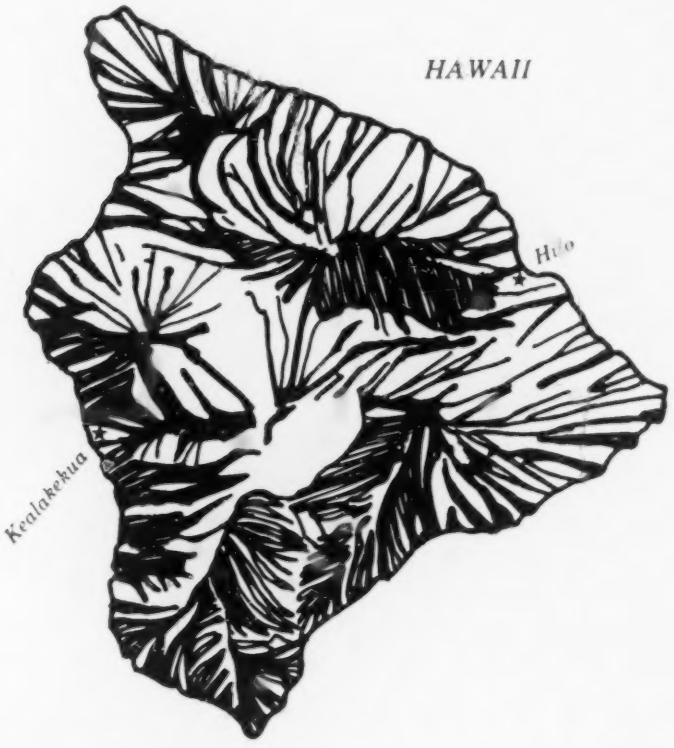


Office: 54 South High Street
P.O. Box 1169
Wailuku, Maui 96793

Audit Branch
James Horikawa
Enforcement Branch
Stanley Ching

THIRD TAXATION DISTRICT

Island of Hawaii



Office: 75 Aupuni Street
P.O. Box 1377
Hilo, Hawaii 96720

District Tax Administrator
Sanford Yanagi
Audit Branch
Ronald Yabe
Enforcement Branch
Wendell Serrao

FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau

Office: 3060 Eiwa Street
P.O. Box 1689
Lihue, Kauai 96766

Audit Branch
Ernest Balderas
Enforcement Branch
Helen Teraoka

TAX LITIGATION

BOARD OF REVIEW

The Oahu Board of Review received 31 new appeals during the year, settled 18 and had nine appeals withdrawn. A district summary on the appeals before the Boards of Review during fiscal year 1984-85 is shown below:

	Boards of Review			
	Oahu	Maui	Hawaii	Kauai
Appeals pending at year start	33	11	3	1
New appeals filed	31	14	8	1
Appeals settled	18	—	6	2
Appeals withdrawn	9	—	—	—
Appeals pending at year end	37	25	5	—

SUPREME COURT AND TAX APPEAL COURT

During the year, the department's legal counsel closed 160 cases as follows:

Tax Appeals

Ninth Circuit Court of Appeals	1
State Supreme Court	2
Tax Appeal Court	5
State Circuit Court	1

Other Matters

Mortgage Foreclosures	140
Bankruptcy	2
Inheritance and Miscellaneous	9

Summarized below are three of the major cases heard by the Ninth Circuit Court of Appeals and the Tax Appeal Court:

NINTH CIRCUIT COURT OF APPEALS:

Air Polynesia, Inc., dba DHL Cargo *Decided on September 11, 1984*

Air Polynesia is an interisland transporter of freight and mail. In this suit, Air Polynesia argued that injunctive relief under the Tax Injunction Act (28 U.S.C. Sec. 1341), which was denied in the federal district court in an earlier suit, should be made to apply because there was no plain, speedy and efficient remedy in the state courts. The Ninth Circuit Court of Appeals stated there are two possible avenues of relief available to Air Polynesia. The first is the appeal procedure prescribed in HRS Section 235-114. The second is the action allowed to recover monies paid under protest in HRS Section 40-35. The Court held Air Polynesia is given opportunity for a full and fair consideration of its appeal and affirmed the district court's denial of injunctive relief.

TAX APPEAL COURT:

United Meat Company, Ltd. *Decided on February 7, 1985*

At issue is whether or not the slaughtering activities of the Taxpayer involve a manufacturing activity, services rendered to a manufacturer, or, as the Director contends, the activities involve services furnished to its customers.

The Taxpayer owns and operates a commercial hog slaughtering business. In its operation, the Taxpayer neither buys hogs nor sells pork or any other related products. Other than the slaughtering of live hogs, their dressing and delivery to the owners, the Taxpayer does not engage in any activity subject to taxation under the provisions of HRS Chapter 237. The Taxpayer alleged it is engaged in a manufacturing activity or, in the alternative, provides services to a manufacturer under HRS Section 237-18(d). The Court has rejected the Taxpayer's arguments and held that slaughtering activities do not constitute a manufacturing activity within the purview of HRS Chapter 237. The matter is under appeal to our Supreme Court.

Tradewind Tours of Hawaii, Inc. *Decided on June 7, 1985*

Tradewind Tours, Inc., performed and furnished administrative and management services to certain of its wholly owned subsidiaries. For tax years 1977-78 and 1978-79, it reported these services as "Other Income" for net income taxation purposes. For subsequent years, the value of these services were re-titled to "Overhead Expenses Allocated." Although included in its consolidated net income tax returns, the Taxpayer nevertheless contended no service income was realized for general excise tax purposes. Because of this nonreporting of gross income, assessments of additional general excise taxes were made. The Taxpayer has attempted to advocate net income taxation principles in support of its contention that no taxable gross income was realized, including a contention that the entries had been reversed at the end of each year. The Tax Appeal Court has rejected these arguments. The Court has determined that the principles enounced in the tax appeal of **In Re C. Brewer and Company, Limited,** 65 Haw. 240 (1982) controls the disposition of the appeal.

HAWAII SUPREME COURT:

Bacchus Imports, Ltd. and Eagle Distributors, Inc. *Pending*

Following remand by the United States Supreme Court, the matter is now pending before our Supreme Court for determination as to what, if any, remedy or relief the distributor-wholesalers are entitled to. All briefs have been filed and the matter is scheduled for arguments on September 18, 1985.

LEGISLATION

In its continuing efforts to conform Hawaii's tax laws to the Internal Revenue Code, the 1985 State Legislature passed Act 19. With certain exceptions, this Act incorporates the Internal Revenue Code as of December 31, 1984.

Other tax bills enacted are summarized below:

Act

16 Administration of Taxation: Corrects reference to the Liquor Tax Law as Chapter 244D.

30 Public Service Company Tax: Extends for five years through June 30, 1991, the exemption of sight-seeing water carrier gross receipts from the public service company tax.

77 General Excise Tax Law: Corrects the language in the existing statutes concerning general excise tax exemptions afforded qualified persons or firms involved with the production of low- and moderate-income housing.

78 Income Tax Law: Increases the amount of the personal exemption from $1,000 to $1,040 per exemption.

79 Appropriates funds out of the general revenues for the purpose of satisfying claims for legislative relief for overpayment of taxes, judgments against the state and settlement of claims.

81 Income Tax Law: Provides a $1 general income tax credit for qualified resident taxpayers on their 1985 income tax return.

88 General Excise Tax Law: Exempts from the General Excise Tax Law (a) contributions, dividends, interests and other income received by an employee benefit plan and (b) cost reimbursements received by a nonprofit organization or office for expenses incurred in administering an employee benefit plan.

130 General Excise Tax Law: Allows taxpayers with an annual general excise tax liability of $1,000 or less to file a general excise tax return on a semiannual basis on July 31 and January 31 and increases the ceiling of tax liability for the filing of quarterly general excise tax returns from $1,000 to $2,000.

211 General Excise Tax Law: Makes permanent the ½% general excise tax rate on the sale of electric power to a public utility company for resale to the public.

232 General Excise and Income Tax Laws: Extends the general excise tax exemption of gasohol retail gross proceeds from July 1, 1985 to June 30, 1992; provides that beginning July 1, 1985, the restriction that the sale of gasohol qualifying for the exemption be derived from alcohol produced within the state from biomass be eliminated; and extends the tax credit for solar or wind energy devices and heat pumps to December 31, 1992.

239 Extends from June 30, 1987 to June 30, 1991, the temporary transfer to the state highway fund of general excise tax revenues from the sale of liquid fuel; increases the state vehicle registration fee from $1 to $10 annually; increases and makes more equitable the state vehicle weight tax; and increases the state liquid fuel tax on gasoline from 8½ cents a gallon to 11 cents a gallon and on diesel oil from 8½ cents a gallon to 12 cents a gallon.

256 Administration of Taxes: Allows the state to retain state tax refunds from persons who are delinquent on support payments for children who are not recipients of welfare assistance.

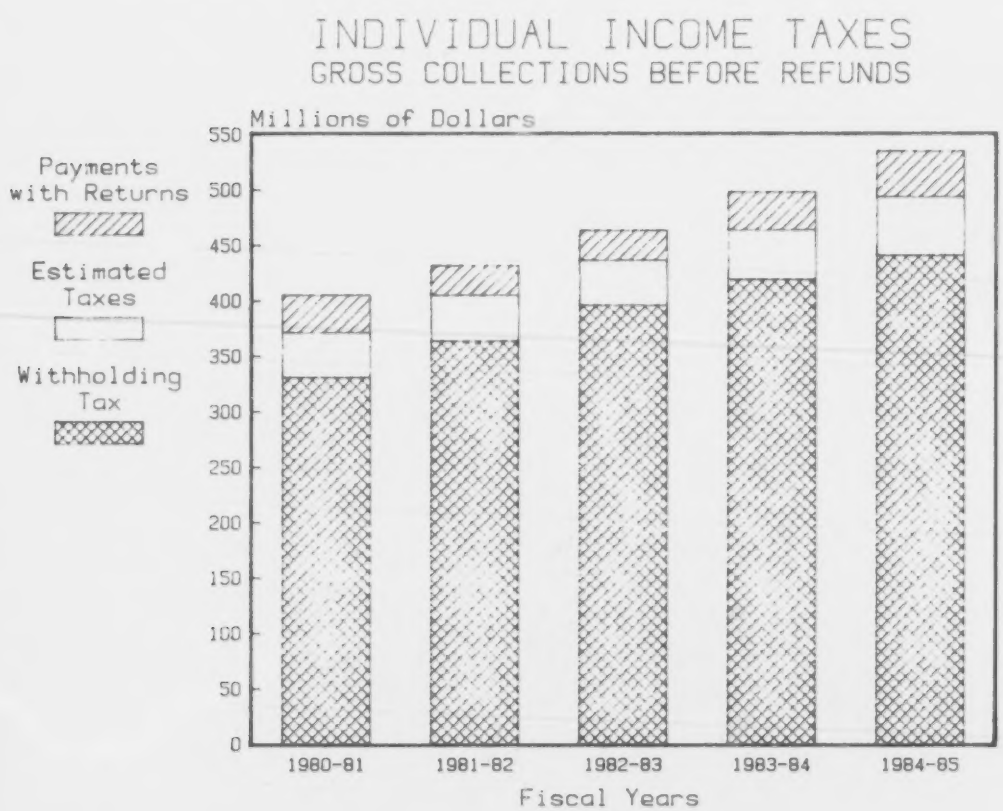
267 Tax Increment Financing: Provides enabling legislation for various counties to establish tax increment districts and authorizes counties to issue bonds.

Act	
283	Income Tax Law: Excludes from gross income intangible income received by a nonresident beneficiary of a trust sited in Hawaii and provides that any resident beneficiary of a trust with a situs in another state may claim a tax credit for income taxes paid by the trust to the other state or income attributable to other than intangibles.
303	General Excise Tax Law: Subjects only additional consideration to general excise taxation where reimbursements are involved and allows the provider of tourist-type services or accommodations to exclude from gross income commissions paid to travel agents.

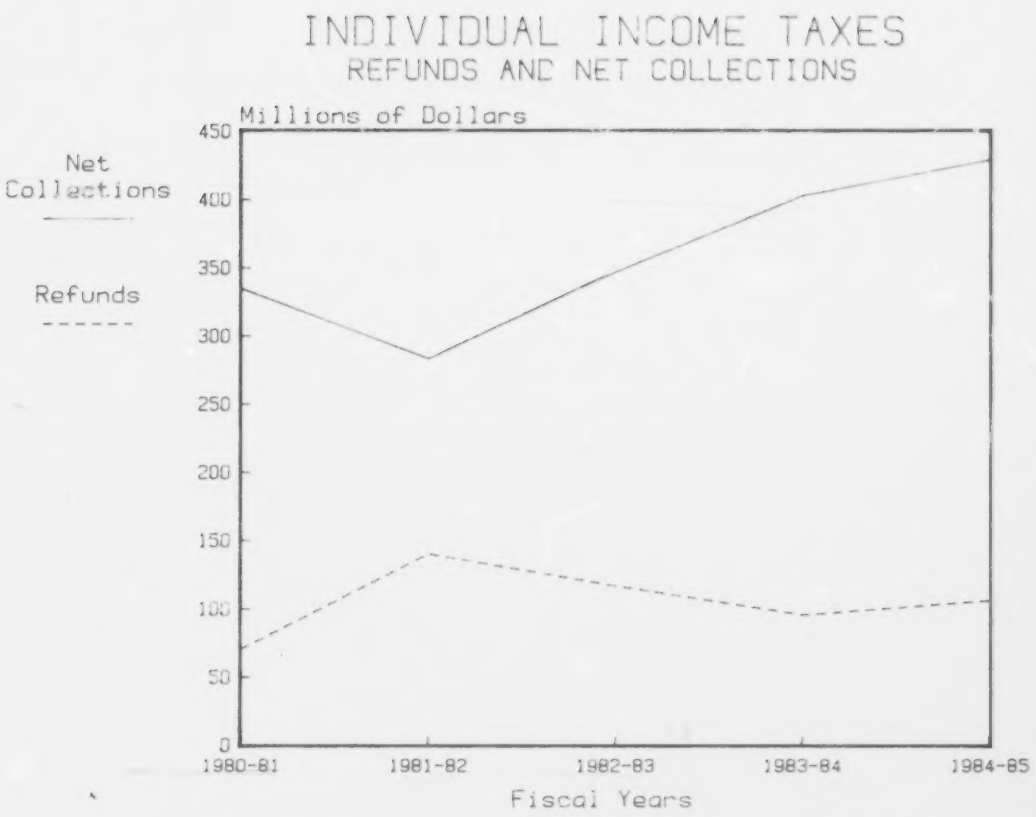
INCOME ASSESSMENT AND AUDIT

INDIVIDUAL INCOME TAX

All components of individual income taxes — estimated taxes, payments with return, and withholding taxes — rose during FY 1985 with total payments before refunds showing a 7.4% increase, nearly identical to the 7.5% increase recorded for the prior fiscal year.



Refunds paid rose 11.1% in FY 1985. Refunds had declined the two prior years as a result of the reduction of the general income tax credit from $100 to $25 and then to $1 per exemption. The average refund per return rose slightly from $277 to $287.



As a result of this upturn in refunds, net individual income tax revenue collected increased only 6.5% in FY 1985 as compared to a 16.2% increase the previous year.

TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1985	FY 1984	1984-85	1980-85
Declaration of Estimated Taxes	$ 52,992	$ 44,931	17.9	8.2
Payment with Return	41,085	34,131	20.4	6.5
Withholding Tax on Wages	441,148	419,435	5.2	7.8
Subtotal	$535,225	$498,497	7.4	7.6
Refunds	105,970	95,421	11.1	20.8
Net	$429,255	$403,076	6.5	7.5

CORPORATE INCOME TAX

For the second year in a row, corporate income taxes increased significantly, topping the previous year's level by 23.1%. Nevertheless, FY 1985's net revenue of $44.8 million was still below the $47.0 million total collected in FY 1981 before revenues went into a two-year tailspin as a consequence of a nationwide economic slump.

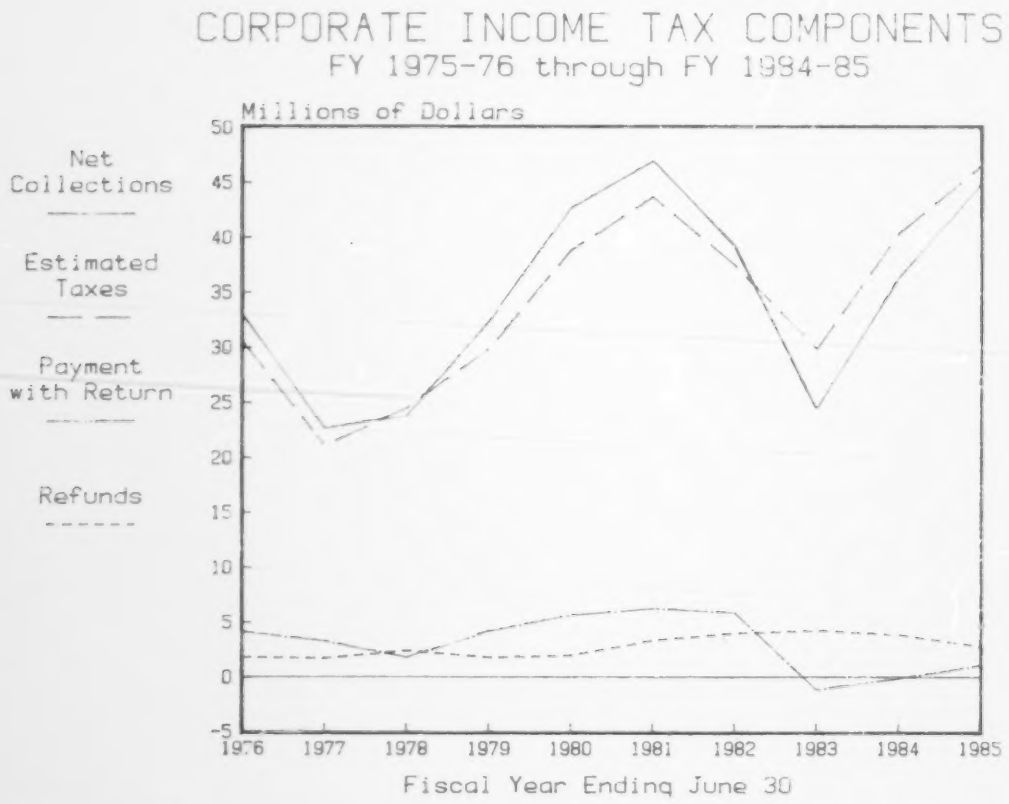
TAXES PAID BY CORPORATIONS
(In Thousands of Dollars)

	FY 1985	FY 1984	Av. Annual Change (Percent) 1984-85	1980-85
Declaration of Estimated Taxes	$46,547	$40,363	15.3	5.7
Payment with Return	1,138	- 72	nm	- 4.2
Subtotal	$47,685	$40,291	18.4	4.8
Refunds	2,849	3,861	-26.2	10.4
Net	$44,836	$36,430	23.1	5.7

nm = not meaningful

In FY 1985, payments exceeded refunds resulting from net operating loss adjustments by $1.1 million, representing the first time in three years that payments overcame losses accumulated from prior years.

The number of corporate returns receiving refunds rose slightly from 1,467 in FY 1984 to 1,496 in FY 1985, but the average refund fell from $2,632 to $1,904, resulting in a 26.2% decrease in the dollar amount of refunds paid.



GENERAL EXCISE AND USE TAXES

Revenue from general excise and use taxes for FY 1985 rose 6.9% to $683.6 million from $639.2 million the previous year. However, because general excise and use tax revenues have been growing more slowly than other tax revenue sources, its percentage of total

state tax collections decreased slightly to 47.3% from 47.9%, continuing a trend of gradual decline since FY 1982 when it represented 50.8% of total state tax collections.

Difficult times in the local construction (contracting), sugar, and pineapple industries showed up as declines in tax collections of 14.3%, 9.2%, and 7.9%, respectively. Other categories experiencing decreases were intermediary services, insurance commissions, and manufacturing. Offsetting these decreases were substantial increases in hotel rentals, other rentals, services, producing, and the ½% use tax.

GENERAL EXCISE AND USE TAX BASE AND TAXES
FOR THE FISCAL YEARS ENDING JUNE 30, 1985 & 1984
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	1985	1984	% Change
TAX BASE				
Retailing		$ 8,280,481	$ 7,686,331	7.7
Services		2,427,955	2,228,547	8.9
Contracting		1,138,533	1,327,939	-14.3
Hotel Rentals		1,098,430	916,108	19.9
All Other Rentals		1,834,320	1,676,413	9.4
All Others (4%)		1,349,865	1,250,154	8.0
Subtotal		$16,129,584	$15,085,492	6.9
Sugar Processing		$ 376,495	$ 414,301	- 9.1
Pineapple Canning		184,495	200,358	- 7.9
Producing		266,614	229,674	16.1
Manufacturing		500,691	527,855	- 5.1
Wholesaling		4,052,693	3,847,019	5.3
Use (½%)		2,131,769	1,748,059	22.0
Intermediary Services		113,511	129,533	-12.4
Insurance Commissions		210,464	228,802	- 8.0
Subtotal		$ 7,836,732	$ 7,325,601	7.0
TOTAL-ALL ACTIVITIES		$23,966,316	$22,411,093	6.9
TAX				
Retailing	4%	$ 331,219	$ 307,453	7.7
Services	4%	97,118	89,142	8.9
Contracting	4%	45,541	53,118	-14.3
Hotel Rentals	4%	43,937	36,644	19.9
All Other Rentals	4%	73,373	67,056	9.4
All Others	4%	53,995	50,007	8.0
Subtotal		$ 645,183	$ 603,420	6.9
Sugar Processing	.50%	$ 1,882	$ 2,072	- 9.2
Pineapple Canning	.50%	923	1,002	- 7.9
Producing	.50%	1,333	1,148	16.1
Manufacturing	.50%	2,503	2,639	- 5.2
Wholesaling	.50%	20,263	19,235	5.3
Use	.50%	10,659	8,740	22.0
Intermediary Services	.50%	568	648	-12.3
Insurance Commissions	.15%	316	343	- 7.9
Subtotal		$ 38,447	$ 35,827	7.3
TOTAL-ALL ACTIVITIES*		$ 683,630	$ 639,247	6.9

INHERITANCE AND ESTATE TAXES

Under the Inheritance and Estate Taxes Law, the inheritance tax is levied on the transfer of the decedent's property and is based on the value of the taxable property after adjusting for exemptions and deductions. If the estate is subject to the federal estate tax, the state estate tax is computed by subtracting the inheritance tax from the maximum federal credit for state death taxes. Although the Inheritance and Estate Taxes Law was repealed by the 1983 Legislature, it is still applicable to the estates of persons who died before July 1, 1983. Because a number of large estates involving such persons were settled in FY 1985, inheritance tax collections surged 58% over the previous year's level.

INHERITANCE AND ESTATE TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1985	FY 1984	1984-85	1980-85
Inheritance Tax	$ 9,746	$ 6,170	58.0	20.0
Estate Tax	2,422	417	480.8	179.5
Subtotal	$12,168	$ 6,587	84.7	26.2
Penalty & Interest	92	65	41.5	26.6
TOTAL	$12,260	$ 6,652	84.3	26.2

The 1983 Legislature enacted the Estate and Transfer Tax Law which applies to persons dying after June 30, 1983. This law eliminates the inheritance tax and imposes an estate tax equal to the federal credit for state death taxes on estates subject to federal estate taxes. Hawaii estate tax collections soared 481% in FY 1985, reflecting the increasing number of estates being settled under the new law.

Estates settled during FY 1985 totaled 4,349, of which 614 were taxable.

PUBLIC SERVICE COMPANY TAXES

Revenue from public service company taxes rebounded in FY 1985 to $62.3 million after falling to $59.6 million in FY 1984 from a FY 1983 level of $66.4 million. The dip in FY 1984 was due to refunds of past tax payments to Aloha Airlines and Hawaiian Airlines.

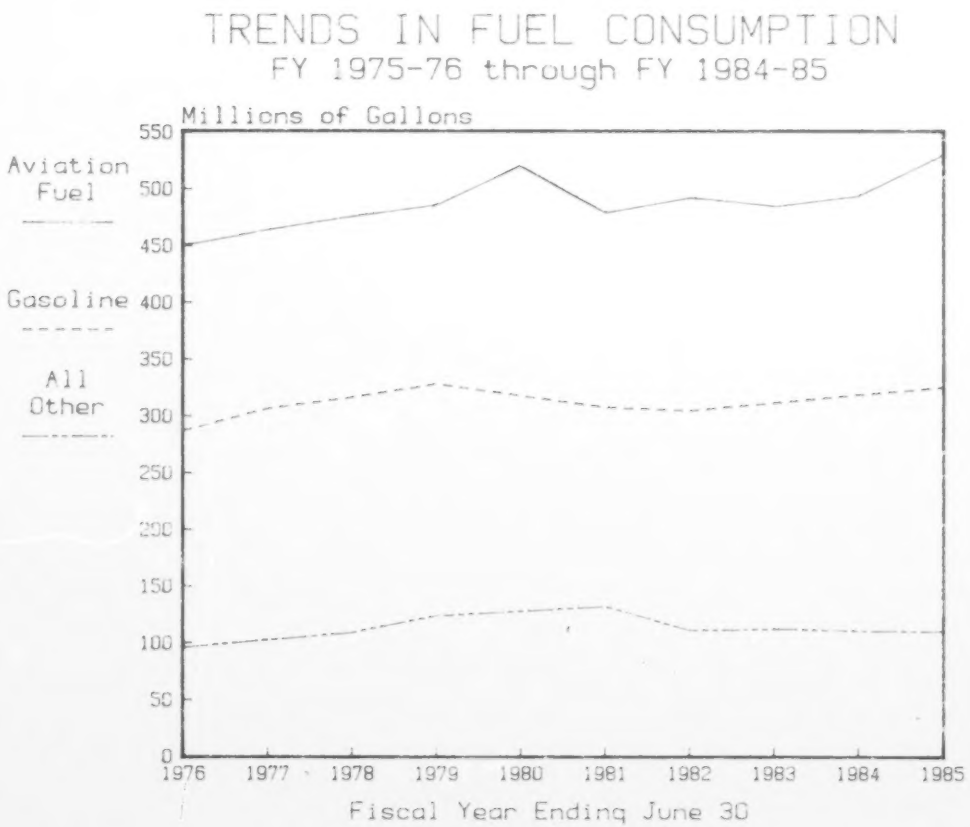
Tax revenue from public utilities fell to $49.9 million from $58.3 million the previous year.

PUBLIC SERVICE COMPANY TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1985	FY 1984	1984-85	1980-85
Public Service Company Taxes	$62,099	$59,441	4.5	15.8
Penalty & Interest	206	118	74.6	40.0
TOTAL	$62,305	$59,559	4.6	15.8

FUEL TAXES

Statewide gasoline consumption increased for the third year in a row, rising to 325.2 million gallons in FY 1985 as compared to 318.8 million gallons in FY 1984. A 2.3 million gallon consumption surge in the County of Maui was the largest, followed by increases of 1.8 million gallons in the County of Hawaii, 1.6 million gallons in the City and County of Honolulu, and 0.7 million gallons in the County of Kauai.



As with gasoline, statewide consumption of diesel oil for highway use grew for the third consecutive year. Fiscal year 1985 consumption totaled 18.0 million gallons, 5.2% more than the amount consumed the prior fiscal year. Consumption of aviation fuel increased 35.6 million gallons to 529.6 million gallons. As shown on the accompanying table, consumption of all other fuels decreased.

GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

	FY 1985	FY 1984	Av. Annual Change (Percent) 1984-85	1980-85
Gasoline	325,186	318,800	2.0	0.3
Diesel Oil — Nonhighway	87,867	89,277	- 1.6	- 3.6
Diesel Oil — Highway	18,003	17,109	5.2	5.4
Liq. Petro. Gas — Off Highway	2,795	2,850	- 1.9	5.1
Liq. Petro. Gas — Highway	964	969	- 0.5	- 2.6
Small Boats — Gasoline	156	163	- 4.3	-13.6
Small Boats — Diesel Oil	335	391	-14.3	- 7.6
Aviation Fuel	529,570	494,001	7.2	0.5
TOTAL	964,876	923,560	4.5	—

Fuel taxes accruing to the state highway fund grew 2.1% to $29.7 million, while collections from the state motor vehicle tax and registration fees advanced 3.0% to $9.6 million.

Fuel tax allocations to the county highway fund of the City and County of Honolulu expanded a hefty 15.1% largely due to a 15.4% boost in the county tax rate on gasoline and diesel oil for highway use from 6½ to 7½ cents per gallon and a 25% hike in the county tax rate on liquid petroleum gas for highway use from 4 to 5 cents per gallon effective July 1, 1984.

ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 1985	FY 1984	Difference
STATE HIGHWAY FUND:			
Gasoline	$27,272	$26,707	$ 565
Diesel Oil — Nonhighway Use	873	888	- 15
Diesel Oil — Highway Use	1,515	1,440	75
Liq. Petro. Gas — Off Highway Use	28	28	—
Liq. Petro. Gas — Highway Use	57	57	—
Subtotal	$29,745	$29,120	$ 625
Motor Vehicle Weight Tax/Reg. Fees	9,553	9,272	281
TOTAL	$39,298	$38,392	$ 906
COUNTY HIGHWAY FUNDS:			
City & County of Honolulu	$17,941	$15,581	$ 2,360
County of Maui	2,159	2,022	137
County of Hawaii	2,167	2,105	62
County of Kauai	677	642	35
TOTAL	$22,944	$20,350	$ 2,594
BOATING SPECIAL FUND	$ 532	$ 500	$ 32
STATE AIRPORT FUND:			
Aviation Fuel	$ 5,296	$ 4,940	$ 356

OTHER TAXES

The accompanying table compares tax collections from all other sources for the fiscal years ending June 30, 1985 and June 30, 1984, respectively. Revenue from these sources rose 14% to $153.5 million.

Variation in tax collections from banks and other financial institutions was largely a result of heavy net operating losses carried forward from prior years. The large difference in revenue from liquor taxes and permits reflects variation in the size of protested amounts transferred to a special escrow account.

MISCELLANEOUS TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1985	FY 1984	1984-85	1980-85
Banks & Other Financial Corp.	$ 3,881	$ 547	609	77.6
Conveyance	1,861	1,797	3.6	- 2.5
Empl. Security Contributions	68,701	76,297	- 10.0	1.0
Insurance Premiums	28,705	26,606	7.9	5.5
Liquor & Permits	20,635	- 209	nm	15.5
Tobacco & Licenses	19,717	19,949	- 1.2	9.5
General Excise Licenses & Fees	398	383	3.9	0.6
Motor Vehicle Weight/Reg. Fees	9,553	9,272	3.0	2.7
TOTAL	$153,451	$134,642	14.0	3.0

nm = not meaningful

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS

Total tax collections by and for the State of Hawaii amounted to $1,444.3 million in FY 1985, an 8.2% gain over the previous fiscal year. Of this total, $1,404.1 million was collected by the Department of Taxation. Another $1.9 million was collected by the Department of Land and Natural Resources in the form of conveyance taxes, while the Department of Commerce and Consumer Affairs collected $28.7 million in insurance premium taxes. A sum of $9.6 million in state motor vehicle weight taxes was collected by the counties and transferred to the State Department of Budget and Finance.

Tax collections accruing to the state general fund totalled $1,292.9 million or 89.5% of all collections, while the counties received $23.0 million. The remaining $128.5 million accrued to the state special funds, which include the highway, airport, boating, unemployment trust, and election campaign funds.

DISTRIBUTION OF COLLECTIONS
(In Thousands of Dollars)

	FY 1985		FY 1984	
	Amount Collected	% of Total	Amount Collected	% of Total
State General Fund	$1,292,873	89.5	$1,178,259	88.3
State Special Funds	128,461	8.9	135,908	10.2
County Funds	22,994	1.6	20,350	1.5
TOTAL	$1,444,328	100.0	$1,334,517	100.0

Net tax collections were up in each of the four counties as summarized in the accompanying table.

TAX COLLECTIONS
(In Thousands of Dollars)

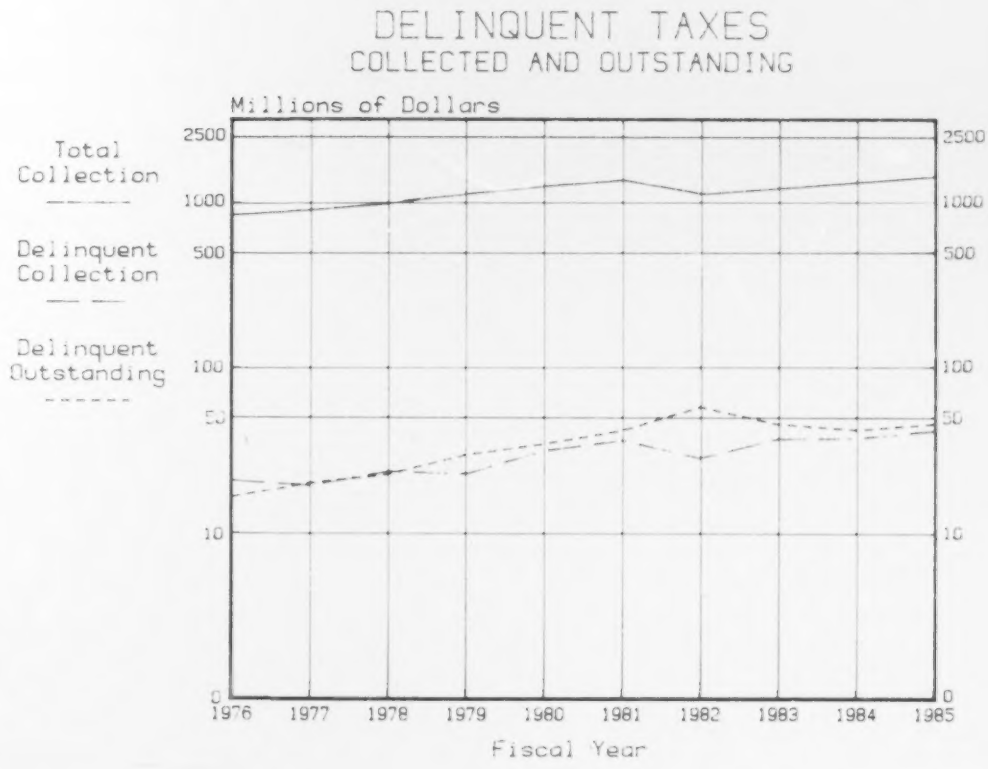
			Av. Annual Change (Percent)	
	FY 1985	FY 1984	1984-85	1980-85
OAHU				
Gross Collections*	$1,325,898	$1,258,382	5.4	3.8
Less Appeals, Payments Under Protest, Refunds, TDI	111,143	124,019	-10.4	17.2
Net Collection by Department	$1,214,755	$1,134,363	7.1	3.3
MAUI				
Gross Collections*	$ 92,205	$ 83,102	11.0	5.9
Less Appeals, Payments Under Protest, Refunds, TDI	10,267	12,110	-15.2	19.4
Net Collection by Department	$ 81,938	$ 70,992	15.4	6.8
HAWAII				
Gross Collections*	$ 88,709	$ 82,109	8.0	2.5
Less Appeals, Payments Under Protest, Refunds, TDI	10,651	12,775	-16.6	17.3
Net Collection by Department	$ 78,058	$ 69,334	12.6	3.0
KAUAI				
Gross Collections*	$ 34,378	$ 32,909	4.5	1.2
Less Appeals, Payments Under Protest, Refunds, TDI	4,920	10,758	-54.3	41.8
Net Collection by Department	$ 29,458	$ 22,151	33.0	2.3

**Excludes conveyance, insurance premiums, and motor vehicle weight taxes.*

DELINQUENT TAXES

Delinquent accounts closed during the fiscal year ending June 30, 1985, fell 14.2% to 36,784 from 42,871 the previous year. Despite this drop, taxes collected as a result of these closings increased 3% from $37.7 million to $38.9 million, resulting in a jump in the net collection per account from $880 to $1,057. These collection figures take into account write-offs on uncollectible accounts of $2.9 million in fiscal 1985 and $2.0 million in fiscal 1984.

Delinquent accounts numbered 17,292 at the beginning of fiscal 1985. During the year, the Enforcement Branch received 40,225 new referrals and closed 36,784 accounts, leaving a year-end balance of 20,733 accounts pending. Delinquent taxes outstanding at year end stood at $46.0 million, as compared to $42.3 million a year earlier.



BRIEF SUMMARY OF HAWAII'S TAX SYSTEM

The high degree of centralization in Hawaii's tax structure enables the state government to utilize revenue sources in an effective manner. The general excise tax continues to be the major source of the state's general fund tax revenue, followed by the progressive individual income tax.

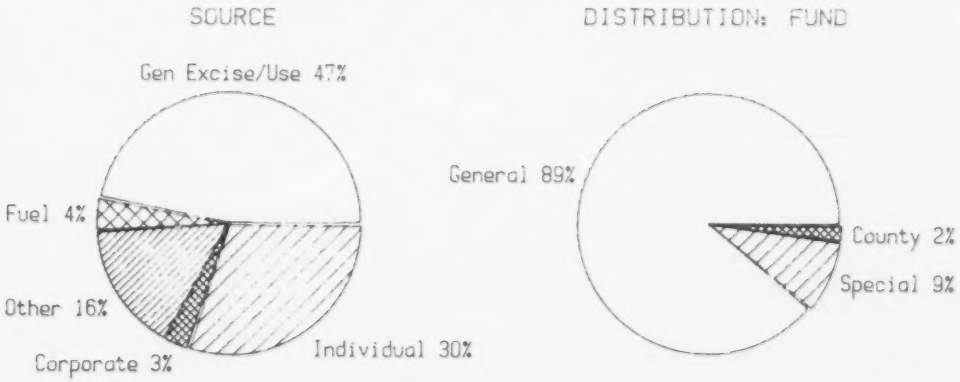
An outstanding characteristic of the state's tax structure is its use of income tax credits. These credits were designed to: (a) provide relief to low-income taxpayers; (b) promote energy conservation; and (c) encourage public safety. Over the years, changes were made to simplify both the filing process and the administration of some of these tax credits.

Two tax credits which can only be claimed by resident taxpayers with adjusted gross incomes under $20,000 are the excise tax credit and the low-income renter's tax credit. Whereas the renter's credit is a flat credit based on the number of qualified exemptions, the excise tax credit is inversely graduated against adjusted gross income. The child care, energy, and child passenger restraint tax credits are available to qualified taxpayers of all income levels. However, beginning with the 1982 taxable year, the amount of child care tax credit, formerly 10% of expenses, became graduated against adjusted gross income (AGI), ranging from 15% of expenses for those with an AGI up to $10,000 to 10% of expenses for those with an AGI above $18,000. Except for the child passenger restraint tax credit, all the other credits are available to resident taxpayers only.

For the taxable year 1984, Act 55 of the 1984 Legislature gave a one-time $1 general income tax credit to all residents of the State of Hawaii. This law was enacted to implement Article VII, Section 6, of the state constitution, which mandates the legislature to provide for a tax refund or credit whenever general fund year-end balances exceed five percent of general fund revenues for two successive fiscal years.

Hawaii has fifteen separate tax laws of which twelve are administered by the state. The remaining three — the motor vehicle weight tax, the public utility franchise tax, and the real property tax — are administered by the counties. Until July 1, 1981, the Real Property Tax Law was administered by the state, with the revenue from this source accruing to the counties. The counties administer all of the real property functions. The counties also administer the state and county motor vehicle weight taxes, revenues from which accrue to the state and county highway funds. Revenues from ten of the state-administered taxes go into the state's general fund and are used to provide the various services of the state government, including the health, education, and social services systems which are state functions in Hawaii. Although the fuel tax is administered by the state, it is a source of revenue for both state and county governments. The employment security tax is a dedicated tax, used exclusively to provide benefits to unemployed workers.

TAX COMPOSITION: FY 1985



STATE GENERAL FUND

GENERAL EXCISE TAX: The general excise tax is a tax on the privilege of doing business in the state as measured by the gross proceeds of business transactions. Hawaii is one of the few states having a gross receipts tax. This tax applies, with few exceptions, to all levels of business activities, including not only the consumer level, but also the producing, manufacturing, and wholesaling activities. The significant difference between Hawaii's general excise tax as compared to a sales tax is that the incidence of the tax is on the seller rather than on the purchaser. This tax applies to receipts from the sale of tangible personal property, services performed, and income from the investment of business capital, in such forms as interest, rentals, royalties, fees, etc.

The consumer level rate is 4%, with the rate on producing, manufacturing, and wholesaling at ½ of 1%. Insurance solicitors and agents have a preferential rate of .15%.

USE TAX: Under the Use Tax Law, an excise tax is levied on the import or purchase of tangible personal property from an unlicensed seller for use or for resale at retail in the state. If the import is for resale, it carries the wholesaling rate of # of 1%; otherwise, the rate is 4%, the same as for retailing.

INCOME TAXES: The Income Tax Law of 1957 adopted, with certain exceptions, the provisions of the Internal Revenue Code in the determination of gross income, adjusted gross income, and taxable income. Some of the significant exceptions applicable under Hawaii's law are: 1) taxation of cost-of-living allowances received by federal employees in Hawaii; 2) exclusion of pension income; 3) allowance of $7,000 personal exemption for persons who are blind, deaf, or totally disabled; and 4) a deduction, up to $5,000 a year, for an individual housing account.

ESTATE AND TRANSFER TAX: Act 217 of the 1983 Legislature repealed the Inheritance and Estate Tax and established in its place the Estate and Transfer Tax for persons dying after June 30, 1983. The amount of tax is equal to the federal credit for state death taxes on estates subject to the federal estate tax.

LIQUOR AND TOBACCO TAXES: These are ad valorem taxes on the wholesale value of liquor and tobacco products. This is quite different from the usual practice on the mainland where liquor is taxed on a gallonage basis, with rates depending on the alcoholic content; and where cigarettes are taxed on the basis of the number in the pack. Hawaii taxes all tobacco products at a rate of 40% of the wholesale value, and liquor at 20% of the wholesale value.

PUBLIC SERVICE COMPANY TAX: This is a tax on public utility business in lieu of general excise and real property taxes. Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers is taxed at 5.35%. The rate on all other public utility gross income is based on the ratio of net to gross income. If this ratio is 15% or less, the rate is 5.885%, increasing by .2675% for each 1% increase in ratio of net to gross. The rate for motor carrier and contract carrier business is 4% of gross income.

BANKS AND OTHER FINANCIAL INSTITUTIONS: A franchise tax in lieu of all other taxes, except real property, is imposed on both national and state banks, building and loan companies, industrial loan companies, and small business investment companies. The tax rate is 11.7% of taxable income measured by net income for the preceding year.

INSURANCE PREMIUM TAX: This is a tax on insurance companies based on premiums received in Hawaii and is in lieu of all taxes, except real property and taxes on the purchase, use or ownership of tangible personal property. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the Director of Taxation all amounts of taxes collected. The rates are: life insurance — domestic, 1.918% and foreign, 3.197%; surplus lines, 4.68%; ocean marine, .8775%; and other insurance — domestic, 2.9647% and foreign 4.2824%. These rates are applicable to all premiums and gross underwriting profits received during the calendar year (1979 and thereafter).

CONVEYANCE TAX: This tax is imposed, with certain exceptions, on all deeds, leases, subleases, assignments of lease, agreements of sale, instruments, writings, or other documents transferring ownership or interest in any land, tenement or other realty. The rate of tax is 5¢ on each $100 of actual and full consideration paid with a minimum tax of one dollar on each taxable transaction. The purpose of this law is to acquire selling price data to determine market value which is needed to achieve uniformity in real property tax assessment.

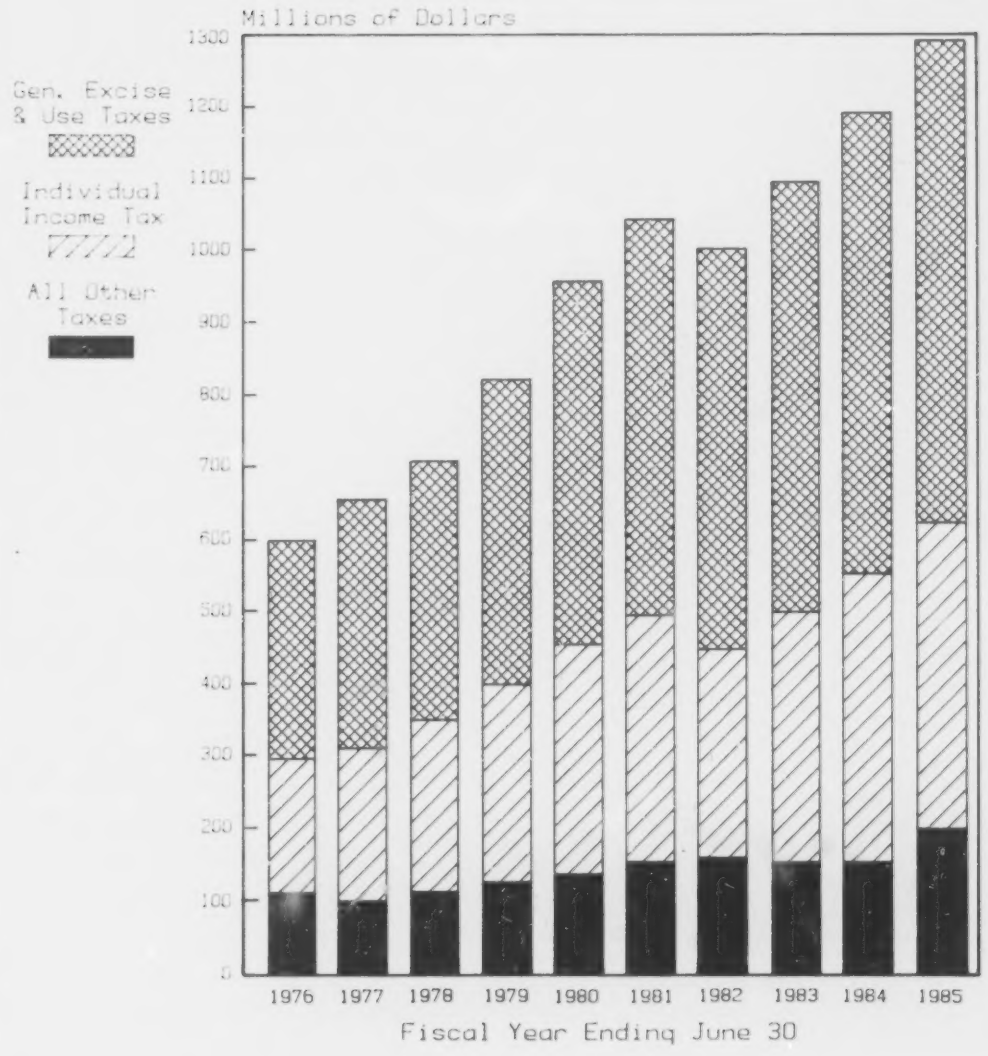
SPECIAL PURPOSE TAXES

FUEL TAXES: The fuel tax is administered and collected by the state, but it is a source of revenue for both state and county governments. The county tax rates on each gallon of gasoline and diesel oil used on the highways are set by the council of each county. State fuel tax rates are established by the state legislature. Revenue from this source goes into state and county special funds for use in the construction and maintenance of highways, roads, airports, and boating programs.

The county tax rates on gasoline and diesel oil used on the highways which were in effect for this fiscal year are: 7½¢ for the City and County of Honolulu, 6¢ for the County of Maui, 5¢ for the County of Hawaii, and 4¢ for the County of Kauai. The state rate is 8½¢ for all gasoline and diesel oil used on the highways, and 1¢ for gasoline, diesel and liquefied petroleum gas used off highways. The aviation fuel tax rate is 1¢ per gallon. To encourage the use of liquefied petroleum gas for antipollution purposes, the fuel tax on liquefied petroleum gas used on the public highways was reduced to two-thirds of the rates applicable to diesel oil used on the highways for both state and county purposes.

HAWAII EMPLOYMENT SECURITY TAX: The proceeds from this tax go into the unemployment insurance trust fund for the payment of benefits to unemployed workers while they are seeking new jobs. This is a tax on employers and is measured by wages and salaries paid. It is a variable tax rate, ranging from 0.2% to 5.4% for calendar year 1985 and is based on the employer's past employment record. This law is administered by the Department of Labor and Industrial Relations, but the tax is payable to the Director of Taxation.

TRENDS IN GENERAL FUND REVENUE
BY SOURCE



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TAX COLLECTIONS

SOURCE OF REVENUE	FY 1985 Amount Collected	FY 1985 % of Total	FY 1984 Amount Collected	FY 1984 % of Total
Banks — Financial Corps.	$ 3,880,666	.27	$ 547,143	.04
Conveyance	1,860,652	.12	1,797,394	.13
Employment Security Contributions	68,701,454	4.76	76,296,605	5.72
Fuel	58,517,137	4.05	54,909,756	4.11
General Excise & Use	683,630,344	47.33	639,246,714	47.90
Income — Corporations	44,836,680	3.11	36,430,730	2.73
Income — Individuals	429,255,561	29.72	03,076,248	30.20
Inheritance & Estate	12,260,322	.85	6,651,792	.50
Insurance Premiums	28,705,247	1.99	26,606,444	1.99
Liquor & Permits	20,634,963	1.43	- 209,040	—
Motor Vehicle Weight Registration Fees	9,553,089	.66	9,272,415	.70
Public Service Companies	62,305,034	4.31	59,559,375	4.46
Real Property	50,169		25	
Tobacco & Licenses	19,716,689	1.37	19,948,572	1.49
All Others	420,199	.03	382,843	.03
TOTAL	$1,444,328,206	100.00	$1,334,517,016	100.00

DISTRIBUTION OF COLLECTIONS

STATE FUNDS:				
State General	$1,292,873,107	89.51	$1,178,159,045	88.29
State Highway	39,298,328	2.72	38,364,247	2.88
State Highway (Act 159, S.L.H. 1981)	14,099,729	.97	15,122,115	1.13
State Airport	5,295,702	.37	4,968,375	.37
Boating Special Fund	532,214	.04	499,414	.04
Unemployment Trust	68,701,454	4.76	76,296,605	5.72
Election Campaign Fund	533,520	.04	657,056	.05
Subtotal — State	$1,421,334,054	98.41	$1,314,166,857	98.48
COUNTY REVENUES:				
Property	$ 50,170	—	$ 25	—
Fuel	22,943,982	1.59	20,350,134	1.52
Subtotal — Counties	$ 22,994,152	1.59	$ 20,350,159	1.52
TOTAL	$1,444,328,206	100.00	$1,334,517,016	100.00

STATE GENERAL FUND

SOURCE OF REVENUE	FY 1985 Amount Collected	FY 1985 % of Total	FY 1984 Amount Collected	FY 1984 % of Total
Banks — Financial Corps.	$ 3,880,666	.30	$ 547,143	.05
Conveyance	1,860,652	.14	1,797,394	.15
General Excise & Use	669,530,615	51.79	624,124,599	52.97
Income — Corporations	44,836,680	3.47	36,430,730	3.09
Income — Individuals	428,722,041	33.16	402,419,192	34.15
Inheritance & Estate	12,260,322	.95	6,651,792	.56
Insurance Premiums	28,705,247	2.22	26,606,444	2.26
Liquor & Licenses	20,634,963	1.60	- 209,040	—
Public Service Companies	62,305,034	4.82	59,559,375	5.05
Tobacco & Licenses	19,716,689	1.52	19,948,572	1.69
All Others	420,198	.03	382,844	.03
TOTAL	$1,292,873,107	100.00	$1,178,259,045	100.00

FUEL TAX RATES PER GALLON[1]

	State	County	Total
GASOLINE & DIESEL OIL (HWY. USE):			
City & County of Honolulu	8½¢	7½¢[2]	16 ¢
County of Maui	8½¢	6 ¢	14½¢
County of Hawaii	8½¢	5 ¢	13½¢
County of Kauai	8½¢	4 ¢	12½¢
LIQUID PETROLEUM GAS (HWY. USE):			
City & County of Honolulu	6 ¢	5 ¢[2]	11 ¢
County of Maui	6 ¢	4 ¢	10 ¢
County of Hawaii	6 ¢	3 ¢	9 ¢
County of Kauai	6 ¢	3 ¢	9 ¢

[1] *Gasoline used for agricultural equipment off highways, aviation fuel, and all other fuels used off highways are taxed at one cent per gallon.*

[2] *Effective July 1, 1984.*

DEPARTMENT OF TAXATION

TRAINING PROGRAMS FOR FISCAL YEAR ENDING 6/30/85

	Training Course	No. of Employees	Hours of Training
1.	Managerial Skills Seminar	1	40
2.	Effective Letterwriting	1	16
3.	National Association of Tax Administrators Conference	1	24
4.	16th Annual Boards of Review Conference	7	126
5.	1984 Hawaii Congress of Planning Officials Conference	1	16
6.	EEO for Everyone	1	8
7	Selection Interviewing Workshop	1	8
8.	Western States Association of Tax Administrators	1	24
9.	Individual Housing Account	33	33
10.	Net Operating Loss Deduction — Part I	35	35
11.	"S" Corporation	40	40
12.	Business Activities Under the GE Tax Law — Part V	43	43
13.	Professional Skills for the Woman Achiever	8	64
14.	1984 Clerical Seminar	54	432
15.	1984 HAPA Annual Tax Seminar	14	112
16.	"Losses" — Part II	35	35
17.	Charitable Contributions	39	39
18.	Partnership Taxation	38	76
19.	Miscellaneous Deductions	32	32
20.	Business Activities Under the GE Tax Law — Part III	35	35
21.	Business Use of Home	36	36
22.	Taxable and Nontaxable Income	34	34
23.	Current Tax Legislation — Hawaii	45	45
24.	Education Expense	33	33
25.	Capital Gains & Losses — Security Transactions	36	36
26.	Business Activities Under the GE Tax Law — Part IV	31	31
27.	1984 Hawaii Tax Institute	8	320
28.	Chapter 90 Workshop	1	2
29.	Information Systems for Public Sector Finance Officers	1	32
30.	Introduction to IBM-PC Disk Operating System	16	48
31.	Decision Analysis Using Lotus 1-2-3	2	16
32.	1984 HSCPA Annual Tax Conference	7	56
33.	1985 HAPA Annual Tax Practitioners Institute	12	96
34.	Lotus 1-2-3 (Level 1)	5	45
35.	Introduction to Database III	4	36
36.	Introduction to MultiMate	4	36
37.	Fundamentals Course for Radiological Monitors	1	8
38.	System/36 System Operations	1	3
39.	Cutting Injury Costs	1	8
40.	18th Annual Meeting of Multistate Tax Commission	1	24
41.	PC Technical Update Class	1	4
	TOTALS	700	2,187

NOTE: List does not include certain general interest training.

OUTLINE OF HAWAII TAX SYSTEM AS OF JULY 1, 1983

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(1) Net Income Chapter 235—Sec. 235-1 to 235-119	Tax rates for individuals as well as estates and trusts range from 2.25% to 11.0% of taxable income. The allowable zero-bracket amounts vary by filing status. The zero-bracket amount for married filing joint return or surviving spouse with dependent child is $1,000; single or head of household is $800; and married filing separately is $500. Tax rates for corporations are 5.85% up to $25,000, and 6.435% over $25,000.	Returns due 20th day of 4th month following the close of taxable year. Withholding returns due monthly on or before the fifteenth day of the following calendar month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the fifteenth day of the month after the close of each quarter. An annual employer's return and reconciliation of Hawaii income tax withheld Form HW-3 must be filed together with a duplicate copy of each employee's tax statement Form HW-2 on or before the last day of February following the close of the calendar year. Estimates of income of individuals not subject to withholding, April 20th. Estimates of corporations, September 20th.	In general, at time of filing returns. Estimates of individuals one-quarter April 20th, June 20th, September 20th, and January 20th. Corporations one-half September 20th and January 20th.
(2) Inheritance and Estate (For decedents dying before 7/1/83) Chapter 236—Sec. 236-1 to 236-44	Hawaii resident tax on shares of net estate. Nonresident tax on shares of net estate having situs in Hawaii. Exemptions: (a) Bequests to spouse $300,000; (b) parent, child, grandchild or legally adopted child $150,000, (c) bequests to others $5,000. Tax rates: (a) 2% to 7%, (b) 3% to 8%, (c) 3% to 10%; respectively. Estate Tax on corpus of estate having tax situs in Hawaii, to take advantage of the maximum credit for state death taxes under basic federal estate tax. Tax computed by subtracting inheritance tax from the maximum credit for state death taxes allowed.	The pursonal representative of the decedent's estate shall file a return. If there will be no administration of the estate, the return must be executed and filed by any person in actual possession of decedent's property, such as joint owner, trustees, transferees, beneficiaries, etc.	Decedent's personal representative must complete the return and pay applicable taxes due within 18 months after death.
(3) Estate and Transfer (For decedent's dying after 6/30/83) Chapter 236D—Sec. 236D-1 to 236D-18	Every resident decedent is taxed on transfer of taxable estate equal to federal credit for estate death taxes allowed by IRC Section 2011. Credit is allowed for death tax imposed by another state not qualified by reciprocal provision. For nonresident decedent, tax is based on transfer of taxable estate located in Hawaii by use of ratio. Exemption afforded resident estate equally applicable to nonresident, with certain exceptions.	Report (M-6) must be filed by person responsible for filing federal Estate Tax Return (Form 706). No report required and no tax due when federal Form 706 not required. To obtain release of property, file Request for Release (Form M-6A).	On or before the due date for filing federal Form 706, including extension of time, provided extension is submitted to Hawaii within 30 days of issuance.
(4) General Excise (Gross Income) Chapter 237—Sec. 237-1 to 237-49	This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is ½ of 1% on wholesaling and intermediary services, blind vendors, producing, manufacturing, sugar processing and pineapple canning; all other activities (retailing business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, subagents and solicitors who are taxed at .15%. The cost is $2.50, plus an additional 50¢ for certain retailing activities.	Monthly returns are due on or before the last day of the following month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th dayof the fourth month following the close of the taxable year.	At time of filing returns.
(5) Use Chapter 238—Sec. 238-1 to 238-16	This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for use in the State. The tax is based upon the purchase price or value of the tangible personal property purchased or imported, whichever is applicable. Rates: ½ of 1%, if for resale at retail; 4%, if for use or consumption. For exceptions, see Sections 238-3 and 238-4.	Monthly returns are due on or before the last day of the following month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.	At time of filing returns.
(6) Public Service Company Chapter 239—Sec. 239-1 to 239-11	Nature of Tax — (1) public utility business in lieu of general excise and real property taxes. (a) Measurement of assessment — general rule: Gross income from public utility business of public utilities for preceding calendar year. For exception, see Sec. 239-9. (b) Rates: (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, ½ of 1%. (iii) All other revenues: If ratio of net to gross income is 15% or less, 5.885%; for each 1% increase in ratio of net to gross, rate increase .2675%. (2) Motor carrier, common carrier by water and contract carrier business (other than motor carrier business) in lieu of general excise tax. (a) Measure of assessment — general rule: Gross income from motor carrier, common carrier by water and contract carrier business for preceding calendar year. For exception, see Sections 239-9 and 239-11. (b) Rate: 4% of gross income.	Returns filed on or before April 20th, based upon calendar year operations of preceding year.	First installment at time of filing return or, on or before April 20th. Other installments on 20th of June, September and December.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(7) Banks, Building and Loan, Industrial Loan Companies and Certain Other Financial Corporations Chapter 241—Sec. 241-1 to 241-7	(1) (a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax on banks, building and loan, industrial loan companies, financial corporations, small business investment companies, and development companies not subject to taxes imposed by Chapters 235 and 237. (For industrial loan company, small business investment companies, and development companies exemption under Chapter 237 (gross income tax).) (2) Measure of Assessment: Net income for the preceding year from all sources as defined by Chapter 235 (Income Tax Law) with modifications. (3) Rate: 11.7% of taxable income.	Returns filed on or before April 20, or the 20th day of the fourth month following the close of the fiscal year.	First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th and 8th month thereafter.
(8) Fuel Chapter 243—Sec. 243-1 to 243-16	Distributors, as defined, are required to pay: 1¢ per gallon on aviation fuel; an initial 1¢ per gallon on diesel oil, liquefied petroleum gas for operation of an internal combustion engine and from 12½¢ to 15¢ per gallon on liquid fuels other than the foregoing; also, pay additional taxes from 12½¢ to 15¢ per gallon on diesel oil and from 9¢ to 10¢ per gallon on liquefied petroleum gas used to operate motor vehicles upon the public highways; however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates, Form M-38. Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and liquefied petroleum gas used for motor vehicles not operated upon the public highways may be claimed on Form M-36. Distributors are required to register and be licensed. Licenses are valid until revoked.	Returns are due monthly on or before last day of the following month.	At time of filing returns.
(9) Liquor Chapter 244—Sec. 244-1 to 244-17	"Dealers" as defined in the law and certain others who sell or use liquor must pay an excise tax equal to 20% of the wholesale price. A $2.50 liquor tax permit is required and must be renewed before July 1st of each year. See Sec. 244-4 for exemption from tax.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(10) Tobacco Chapter 245—Sec. 245-1 to 245-15	"Wholesalers" as defined in the law and certain others must pay an excise tax on sale or use of tobacco products, equal to 40% of the wholesale price. A $2.50 tobacco tax license is required and must be renewed before July 1st of each year.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(11) Conveyance Chapter 247—Sec. 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 5¢ per $100.00 of the actual and full consideration paid or to be paid. Minimum $1.00 tax for each taxable transaction. (Documents of certain conveyances are exempted.)	A certificate of conveyance must be filed with the document at the Bureau of Conveyance within 90 days after a taxable transaction; a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.
(12) Hawaii Employment Security (Federal) Chapter 383—Sec. 383-1 to 383-174	This is a tax on wages paid, payable by employers of one or more employees with certain exemptions. The law on unemployment insurance benefit financing, amended to be effective January 1, 1979, retains the reserve ratio method of financing and establishes a two-part schedule consisting of a Basic Contribution Rate Schedule and a Fund Solvency Contribution Rate Schedule. The basic contribution rate will reflect the employer's own experience with unemployment and the fund solvency rate will reflect the trust fund's financial condition and experience of all covered employers. The employer's total contribution rate will not be less than 0% or greater than 4.5%.	Returns filed on or before the last day of the month following the taxable quarter.	At time of filing returns.
(13) Insurance Premiums Chapter 431—Sec. 431-1 to 431-726	Tax on insurance companies (Underwriters) based on premiums received in Hawaii. In lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance Domestic 1.918%, Foreign 3.197%; 4.68% on Surplus Lines; Ocean Marine .6775% of 1% on gross underwriting profit, on other Insurance Domestic 2.9647%; Foreign 4.2824%. This law is administered and the tax collected by the Insurance Commissioner who is required to report to the Director of Taxation all amounts of taxes collected under this chapter. See Section 431-318, 1978, relating to increase in premium tax rates applicable to all premiums and gross underwriting profit received during calendar year 1979 and thereafter.	Monthly or quarterly interim statements based on previous year's liability filed on or before the last day of the calendar month following the reporting period. Annual statement filed on or before March 15th with the Insurance Commissioner.	At time of filing statements.

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Priority Program: Information and assistance to taxpayers

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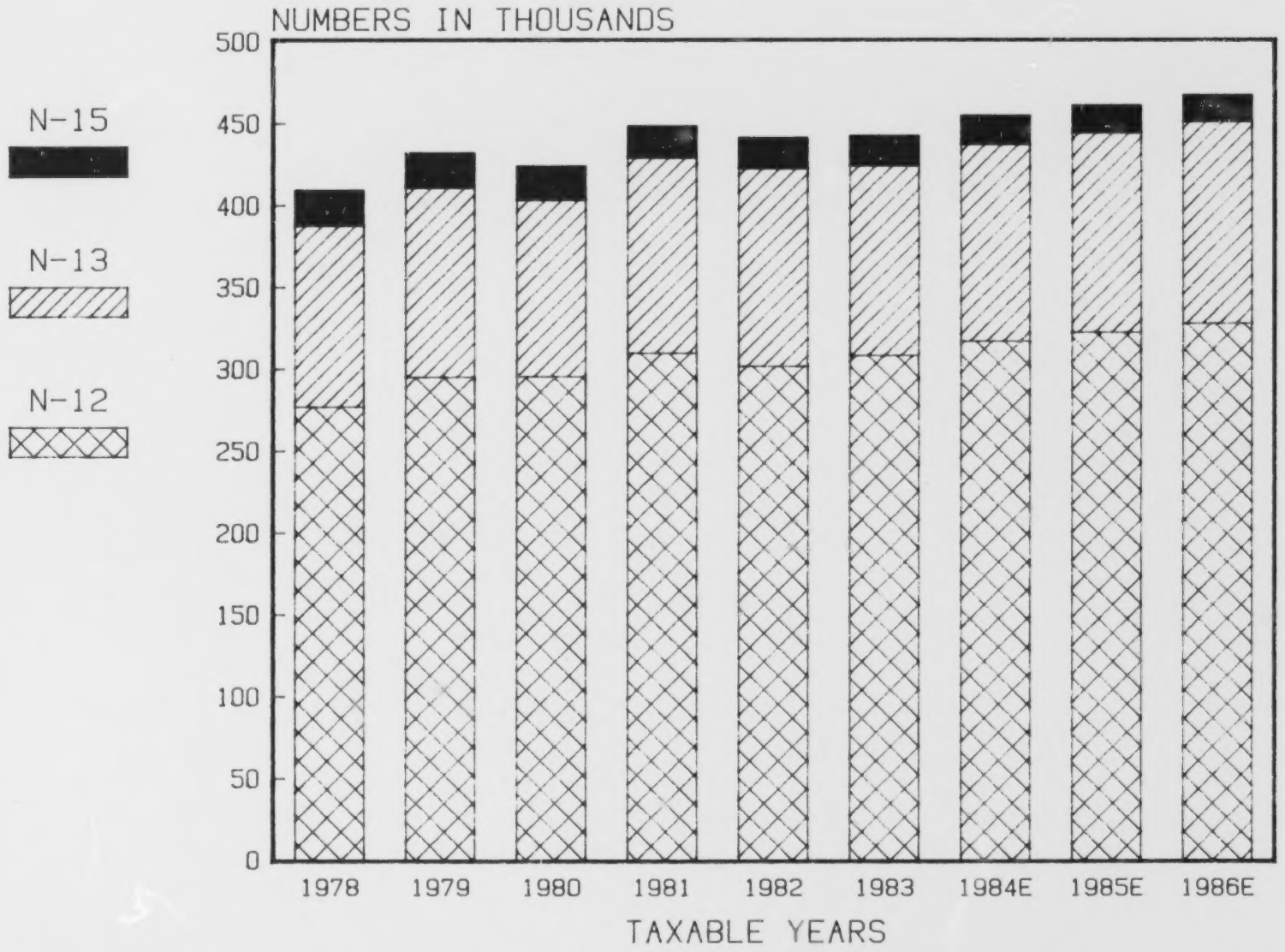
INDIVIDUAL INCOME TAX RETURNS PROCESSED*



*The above chart depicts the number of returns filed each year by type of returns. Actual data are used for the period 1978 to 1983 and estimated data are used for the period 1984 to 1986.